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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
Office of the Secretary
1919 M. Street, NW Room 200
Washington, DC 20554

Re: Ex parte - CC Docket No. 96-45 (Universal Service)

Dear Ms. Salas:

On May 18,1998, Al Lewis, Joel Lubin (by telephone), of AT&T, and I met with Jim Schlichting, Ruth Milkman, Lisa Gelb, Rich Lerner and Valerie Yates of the Common Carrier Bureau. At the request of the Bureau, we met to discuss hypothetical alternative approaches that could be considered for the assessment and collection of contributions to support the universal service funds. Our main point was that there are a number of variables and approaches that could effect the size of the fund, the size of any line item charges, and the way in which those charges are recovered. We took no position on the alternatives that were discussed.

First, we discussed the possibility that universal service fund contributions could be collected on a per line basis (rather than a percent of revenue basis). For example, if the size of the schools and libraries and rural health care funds for the final two quarters of 1998 were $525 million per quarter, and collections per line were received from all customers, including wireless but excluding paging customers, this would equal a charge of approximately $ .76 per month, per line (assuming 231 million lines). If paging customers were also included, this charge would be reduced. This charge could be collected directly by the local exchange carriers ("LECs") through an increase in the subscriber line charge ("SLC"), through a separate other charge on the LEC bill, or by interexchange carriers. We suggested that direct collection by the LECs would be most efficient, reduce the costs of administering the universal service programs, and eliminate variability among interexchange carriers. We also noted that any long term solution would need to match the assessment of universal service obligations with their collection (i.e. per line or on the basis of revenue).

Second, we discussed what the interexchange carrier residential obligation would be for all funds, including the high cost and lifeline funds, and a schools and libraries, rural health care fund of $525 million per quarter. We further assumed collection from only residential customers. This would equal a charge of approximately $ .89 per line, per month, assuming 118 million residential lines. This could also be an increase in the SLC or another LEC charge, or billed by interexchange carriers. A charge on the LEC bill, or an increased SLC, as the collection mechanism for universal service fund obligations could eliminate the need for interexchange carriers to separately bill residential customers to recover universal service fund assessments. This would not affect the way that these costs are recovered from business customers.

Third, we discussed the continuing need to recover the presubcribed interexchange carrier charge ("PICC") from basic schedule customers. We mentioned that customer impacts could be mitigated in various ways, such as by eliminating the current process by which LECs recover their universal service fund assessments through flowback in access charges. For a fund size of $525 million, this would equal approximately $ .51 per line for residential and business customers. As the Commission found in an analogous situation in its recent Local Number Portability Order (CC Docket No. 95-116), recovery of such costs through access charges would not be competitively neutral. Similarly, allowing LECs to recover the majority of their contributions to the universal service funds from their potential competitors places the LECs at a competitive advantage.

Finally, we discussed the independent need for large reductions in interstate access charges and referred to AT&T's pending petition for reconsideration regarding the LEC productivity factor, including the need to raise the factor to 9.3% and to reinitialize PCIs to 1995. Positions taken were consistent with AT&T's previous statements on the record in CC Docket No. 94-1.

Two copies of this Notice are being submitted to the Secretary of the Commission in accordance with Section 1.1206(a)(2) of the Commission's Rules.

Very truly yours,

Rd D. Baily

cc: Mr. T. Power
Mr. J. Casserly
Mr. K. Martin
Mr. K. Dixon
Mr. P. Gallant
Mr. J. Schlichting
Ms. R. Milkman
Ms. L. Gelb
Mr. R. Lerner
Ms. V. Yates